

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 2155

January 11, 2012

SUMMARY OF BILL: Authorizes the Treasurer to invest in linked deposits which are defined as certificates of deposits, placed with eligible lending institutions at reduced rates, provided the institutions agree to lend the value of such deposits to eligible entities as defined by this act. The rates will be reduced by up to three percentage points when market rates are five percent or above, or by up to 60 percent when market rates are less than five percent, provided that the linked deposit rate is not below one percent. Limits the total deposited amount from exceeding \$720,000,000 at any one time. Creates Class A misdemeanors for entities making false statements concerning loan applications, and for lenders or lending officers of eligible lending institutions who knowingly violate this act. Requires lending institutions to give priority to entities that have not previously received reduced-rate loans through the linked deposit program. Requires the institutions to forward a linked deposit loan package to the Treasurer and authorizes the Treasurer to accept or reject the package or any portion of it. Requires the Treasurer to make a good faith effort to ensure that the linked deposits are placed with eligible lending institutions to make linked deposit loans to minority or woman owned businesses that are eligible entities. Prohibits the Treasurer, after December 31, 2015, from investing in any linked deposit the value of which is to be lent to a recipient other than an eligible water supply system or an eligible student borrower. Prohibits the Treasurer, after January 1, 2020, from investing in any linked deposit the value of which is to be lent to any new eligible facility borrower.

Creates the "Linked Deposit Review Committee" comprised of four appointed members including one member of the House of Representatives, one member of the Senate, and one banker and an active farmer appointed by the Governor. The Commissioners of Economic and Community Development and Agriculture, and the Treasurer will serve as ex officio members. Requires all appointments to be made by February 15, 2013, and authorizes reimbursement for travel expenses for Committee members. Requires the Committee to meet as often as necessary to provide timely and appropriate review of the implementation and operation of the linked deposits program established by this act. Requires the Committee to report its findings annually to the Governor, the Speaker of the House, and the Speaker of the Senate.

Requires any state or local governmental authority which is authorized to enter into or negotiate loan agreements, to or for an eligible facility borrower, to accept applications and issue certificates of qualification as an eligible borrower to developmental facilities and renewable fuel production facilities for purposes of applying for reduced-rate loans for the financing of new costs or refinancing of existing debt associated with such facilities. Authorizes the authority to charge a one-time fee for each certificate, not to exceed the actual cost of issuance of the certificate.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures – \$53,500/FY12-13

\$99,000/FY13-14 and Subsequent Years


Other Fiscal Impact – Potential forgone interest earnings for the state if the five-year treasury market rate increases above one percent. The amount of forgone interest earnings will depend on the amount of funds loaned by financial institutions to eligible entities and the difference between the market rate and the linked deposit rate.

Assumptions:

- The Treasurer is authorized to reduce the market rate by up to 60 percent if the market rate is below five percent, provided that the linked deposit rate does not go below one percent. As of January 03, 2011, the five-year treasury market rate was 0.89 percent.
- Any investments by the Treasurer will continue earning interest at the market level, since the current market rate is below one percent. As long as the market rate remains under one percent, these investments will not forego any interest earnings.
- The Department of Treasury will hire one program administrator and one part-time internal auditor to administer and implement the provisions of this act and to inspect and audit the participating financial institutions. Recurring costs associated with the two additional positions will be \$97,287 for salary (\$70,000), benefits (\$22,287), and auditor travel (\$5,000). One-time administrative costs will be \$4,000. Fifty percent, or \$48,643, of the recurring costs and all of the one-time costs will be incurred in FY12-13.
- One member of the House and one member of the Senate will attend Linked Deposits Review Committee meetings.
- Travel and per diem expenses for two legislative members of \$606 per meeting (\$176 per diem plus \$126.96 mileage for each member per meeting).
- Two meetings will be held annually, resulting in a recurring increase in state expenditures of \$1,212 (\$606 x 2 meetings).
- Two additional appointed members will receive travel reimbursements for the two meetings, resulting in an increase in state expenditures of \$508 (\$126.96 x 2 meetings x 2 members).
- Total increase in state expenditures associated with the Committee will be \$1,720 in FY13-14 and thereafter. Fifty percent of this, or \$860, will be incurred in FY12-13.
- The cost of providing the annual report will be not significant.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "Lucian D. Geise". The signature is fluid and cursive, with the first name "Lucian" written in a larger, more prominent script than the middle initial "D." and the last name "Geise".

Lucian D. Geise, Executive Director

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